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## **Impact of Channel Diversity and Economic Crisis on Retail Channel Choice**

### **Abstract**

Increase in channel diversity as a result of retail modernization continues in developing countries. Emerging modern channels cannot exploit their full potential in these markets due to the major barriers exist in delivering their benefits, meeting customer needs, and competing with conventional channel alternatives. Competition becomes even more difficult when there are channel alternatives developed locally, offering benefits similar to both modern and conventional channels simultaneously.

Defining the impact of increasing channel variety in channel choices of consumers is important for retailers and producers in predicting the future market structure and designing growth strategies. This study analyzes the extent of retail modernization and channel proliferation in food retail market in Turkey between the years 2000 and 2005. It focuses on examining the modern channel diffusion in different socioeconomic levels and product categories to define the major factors influencing the rate of diffusion. Considering the severe impact of 2001-economic crisis on purchasing power of customers, the effect of economic developments on channel competition, channel choices and shopping behavior of consumers are also investigated.

In parallel to socioeconomic developments in the country, modern channels might grow geographically through penetrating growing upper socioeconomic segment while challenging the convenience benefits of conventional alternatives. Nevertheless facing local competition during geographic growth requires developing local competitive strategies. Besides increasing the penetration, offering a competitive product line width and depth might stimulate to increase modern channel share in total expenditures of families.

**Key Words:** Channel choice, Channel proliferation, Retail modernization, Economic crisis

# 1 Introduction

The channel proliferation has been the subject of an extensive research both in developed and developing countries. Retail modernization in developing countries, emergence of new store formats, the internet and mobile channels in all economies continue to increase the channel diversity in retail markets.

In Turkey, the traditionally structured food retail market has undergone a major transformation. The global supermarket brands, providing diverse product and service alternatives, have been rapidly growing nationwide taking the advantage of brand investments, store management know-how, financial resources and economies of scale. The traditional small scale shops, such as groceries and specialty stores, providing the accessibility and one-to-one service advantages, have been seriously threatened with the growth of modern channels. Meanwhile, as a different modern channel alternative, independent local supermarkets have emerged to attack the national chains. Local supermarkets (Local SMs) in Turkey offer similar formats like supermarkets: providing large range of products, moving together to create economies of scale in purchasing and creating store brands. However, their major advantage over national supermarkets is that they locate in more convenient places and they focus on local growth.

There is a vast literature examining the evolution of new retail channels and their impact in market structure and consumer behavior (Goldman, 1981; Goldman, 1982; Kaynak and Cavusgil, 1982; Samiee 1993; Sinha 2004; Gonzales-Benito 2001; Flavian et al. 2001; Humphrey, 2007; Bennison and Boutsouki, 1995; Ozcan, 2000; Goldman et al., 2002). The success of supermarkets in developed markets is attributed to their efficient operation compared to traditional channels by providing better prices and quality and creating the opportunity of self-service and one-stop shopping. On the other hand, several studies claim that supermarkets are struggling to fully exploit the growth opportunity in developing markets although global retail brands enter developing markets in several formats, such as hypermarkets, super stores, discount stores, and make a significant contribution in the food retailing progress. Supermarkets perform less than expected in developing markets against traditional stores that have personal ownership and operate with low capital requirements, hold low inventory, provide limited product variety, and do not possess in depth market knowledge. For example, in some Asian countries, such as South Korea, Singapore and

Thailand, modern channels have market shares under 50% (Goldman et al. 2002); while the modern channels reached 80-90% market shares in developed markets. Callichio et al. (2007) have shown that the large chains in Brazil have market shares below 25% and contrary to expectations they are continuing to lose market share.

Some studies, comparing developed and developing markets, conclude that both demand and supply side problems are responsible for slow adoption of supermarkets and modernization in developing markets (Goldman, 1981; Kaynak and Cavusgil, 1982; Samiee 1993). On the supply side, the adoption speed is tied to the level of economical development, government regulations and certain infrastructure conditions in the country. In addition, it is claimed that inefficient supply-channel structure cause supermarkets to acquire a reputation of offering low quality-high price products, especially for fresh produce, and that even customers who shop in supermarkets prefer to buy these product types from the traditional channels. On the demand side, both the shopping frequency and style of consumers in developing countries, and the low value they assign to attractive store environment, large product variety, ease of shopping from one point, are some factors presented as the barriers to modern channel adoption. Goldman et al. (2002) investigated the factors that speed up and slow down diffusion in customer segments and product categories, and found that store location affects the geographic diffusion of modern channels, and product variety carried in the store affects the diffusion in socioeconomic customer segments.

The modern-traditional channel competition intensifies and alteration between channel types continues in Turkey and the increasing number of channel alternatives influences the channel preferences of customers. Considering the increasing competition due to the channel proliferation, studying the impact of emerging new channel formats on competition and consumer behavior needs to be investigated further. Defining the effect of increasing channel variety in channel choices of consumers is important for retailers and producers in predicting the future market structure and designing their growth strategies.

This study aims to analyze the extent and speed of modern channel diffusion in food retail market and to define the changing channel preferences of customers in Turkey. The results will give clues to predict the direction in which the structure of the market will change. Similar to Goldman et al. 2002, we question the progress of modern channel diffusion in a developing economy. Apart from observing customer preferences in modern and traditional

channels at two points of time as in Goldman et al. 2002, we use the panel data to observe the changing actual purchases of customers in a longer time frame. In addition, considering sub-channel categories in both modern and traditional channels enriches the study of channel proliferation. Observing actual purchases of many different product categories enables us to analyze the varied product category diffusion as well.

Moreover, studying Turkish market offers a natural experiment on how an economic crisis, during and after, influences the consumer store preferences. We investigate to what extent economic developments influence channel preferences and competition in the market.

Concisely, we analyze the diffusion pattern of modern channels, the modern channel diffusion in different socioeconomic levels and product categories, the effect of decreasing purchasing power (economic crises) on shopping behavior and channel choices.

In the second and third sections the research framework and the data are illustrated respectively. In the fourth and fifth sections retail modernization and channel proliferation is analyzed between the years 2000 and 2005, the change in channel preference before and after the economic crisis in Turkey is discussed, and how the preferences differ with respect to socio-economic status (SES) levels and product categories are presented. In the final section, the study findings are summarized, and also limitations, managerial implications, and further research topics are discussed.

## **2 Research framework**

As a consequence of new channel introduction, consumers take into account the benefits provided by new retail formats such as shopping convenience, geographic proximity, price, product variety, quality, service, and evaluate the characteristics of both old and new store alternatives when making or changing the store choice decision (Seiders and Teigert, 1997). Therefore, the demand shift from traditional channels to modern channels would be possible when the modern channel benefits, such as ease of one-stop-shopping, store environment, product and service variety offset the dispersed shopping from accessible multiple stores (Goldman, 1981; Kaynak and Cavusgil, 1982).

Considering the benefits of modern channel characteristics, consumers abandon their habits of shopping in traditional channels and adapt to modern channels in different speed in each market. As a first hypothesis, we examine if the speed of adoption to modern channels in Turkey is as slow as in other developing economies. Adoption rate is considered to increase in two dimensions; first, by increasing penetration through recruiting new customers and secondly, by increasing the share of purchase in the budget of recruited customers. It is quite possible that despite recruited by modern channels many households may still spend a significant part of their budget in traditional channels. The budget allocation to channels differ among families (Knox and Denison 2000)

Moreover, the economic crisis during the observation period gives the chance to study the influence of decreasing purchasing power on shopping behavior and modern channel adoption. McKenzie and Schargrotsky (2006) have observed that shopping frequency has increased in Argentina during the economic crisis although the amount of shopping incidences and its real value have fallen. Customers might have increased the number of shopping as a result of decreasing search cost during the crisis, since customers were spending more time for searching cheaper products in different channels. This behavior might influence adoption rate to modern channels in different ways. On one hand, searching cheaper alternatives may provoke customers to try supermarkets more, on the other hand decreasing purchasing power may decrease the amount of purchase. As a second hypothesis, we explore if the customers decreased adoption rate to modern channels during the economic crisis.

In developing countries, small number of potential customers within the population, skewed income distribution and life style can make the acceptance of the modern channels difficult. In these markets, due to the relatively low income and education levels, low ownership of refrigerators, storing spaces and cars force consumers to prefer shopping in smaller quantities, on credit. Moreover, consumers view the shopping as an entertaining social activity instead of as a waste of time, their habits in receiving personal attention from the retailer and the value they give to one-on-one interaction cause them to shop frequently (Goldman1981).

The adoption pace of new retail formats varies by customer characteristics. Supermarkets are accepted more quickly by customers with higher socio-economic level. Higher opportunity costs of shopping time, availability of car, storage place and credit cards increase the

advantages of one-stop-shopping in large supermarkets for the wealthier group (Goldman et al. 2002, East et al. 2000). Despite the families in higher income groups adopting the modern channels more quickly, they still prefer the traditional channels to a large degree. Even though supermarkets have become more widespread, a large proportion of lower income level families continue to predominantly prefer the traditional channel (Goldman1981). As a third hypothesis, we investigate if the consumers with higher socioeconomic levels adapt much faster to modern channels.

Goldman et al. (2002) have also concluded that many consumers that shop from supermarkets regularly do not fulfill all of their needs from supermarkets and have defined buying of only certain product categories from supermarkets as selective adoption. In some developing markets customers buy their packaged products from supermarkets but continue to buy their perishable goods from traditional stores. The existence of product categories that are not preferred to be bought from supermarkets has been defined as the most important obstacle for the increase of market share for the supermarket channel. Therefore it is claimed that the diffusion of modern channels varies in different product categories. As a fourth hypothesis, we research if consumers adapt much faster to modern channels in purchase of some specific product categories.

### **3 Data**

The data used in this study are derived from the database that the HTP Research and Consultancy Co. has composed in order to prepare various commercial reports on the retailing and fast moving consumer goods sector in Turkey. We are allowed to use a limited portion of their database. The dataset we have is an unbalanced panel on a large number of households residing in 14 different yet relatively more developed provinces in Turkey over six years. A brief description of the dataset is provided below. A more detailed description is available in Batislam and Filiztekin (2009).

The original database is compiled through daily diaries of purchases of over 2,500 to 4,700 households, representing around six million households in 14 largest provinces in Turkey<sup>1</sup> between January 2000 and December 2005. The SES levels of families divided into four groups. In the sample there are fewer families belonging to upper groups, AB and C1, compatible with the distribution of economic well-being in the country.

The dataset covers records of daily purchases of all fast moving consumer goods except fresh produce, cigarettes, newspapers and loose items (including meat and fish products unless packaged). The data are aggregated to weekly frequency by channel type and into 14 categories named as alcoholic beverages, soft drinks, tea & coffee, confectionery, delicatessen, frozen food products, dairy products, culinary products, pastry, baby products, cosmetics, paper products, cleaning products and miscellaneous products. Product types are categorized considering the supermarket department definitions corresponding to independent traditional stores, such as cosmetics in pharmacy, and common product storage requirements in the selling points, such as refrigerator for dairy.

Stores are, in turn, classified into five different channels taking into consideration certain criteria such as ownership status, service level, product category and brand diversity, accessibility and store size, and brand investment (Kotler and Keller 2006). Traditional stores, having independent ownership, carrying a limited product variety, providing one-to-one service in accessible, small stores are grouped into three categories: 1) Convenience stores, such as groceries and kiosks; 2) Specialty stores specialized in a product category, such as perfumery, patisserie, pharmacy, delicatessen; 3) Open bazaars.

The outlets are initially grouped into two channels, traditional and modern. Despite its very early start in 1950s, modern retail outlets had very limited access to the market. In the last 30 years expanding market economy, increasing economic welfare, changing social life, increasing invested capital and improvements in retail technology have speeded up the diffusion of large scale modern channels. While there are a number of national hyper- and supermarket chains, there are also a considerable number and rapidly expanding local SMs which differ in their scope and size from the former. These local SMs offer both services of modern (product and service variety) and traditional channels (easy accessibility), but they

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<sup>1</sup> The sample is representative of the 14 provinces in terms of age, occupational and education profile of the population.

have only local presence, yet lack brand investment and institutionalization, and thus compromise a different category of outlets. Hence in this study they are treated as a third type of outlets (channel). Discount store chains are grouped together with supermarkets, since there are supermarkets in Turkey implementing discount pricing, without calling themselves as discount stores and with they are not identifiable the available data.

The dataset covers six years and thus enables us to examine the change in the retail market continuously. However, in 2001 Turkey had the most severe economic crisis of its history affecting all individuals and markets. The crisis has also been claimed to cause drastic changes in consumer behavior. To be able to capture the effects of crisis, if any, the sample period is divided into four sub-periods: before crisis (62 weeks), crisis (87 weeks), after crisis (69 weeks) and recovery (95 weeks) periods. The break points are determined endogenously by running a series of moving window regressions of average spending on an intercept and deterministic trend and then choosing the model with smallest mean squared error.

It would be misleading to work with nominal prices in Turkey due to high inflation especially in the early years of the sample. Therefore, nominal prices have been converted into real prices using the August 2006 consumer price index.

#### **4 Socioeconomic level diffusion and economic crisis**

Spending pattern between the years of 2000-2005 in Turkey showed that the 2001 economic crisis had a severe impact on retail market in Turkey. Total market size collapsed more than 20% in the second sub-period, falling from 292 million TL (\$199 million) per month to 233 million TL (\$159 million)<sup>2</sup> per month and only recovered 7.5% of the loss in 2005. Spending per household fall even more; average spending declined 26% from 210 TL per month (\$143) to 155 TL (\$106) at the end of 2004 and only increased 3.1% in the last year of the sample.

While households were cutting their spending after the crisis, they have also reduced number of shopping trips in a week by 7%. Decreasing number of shopping trips as a result of

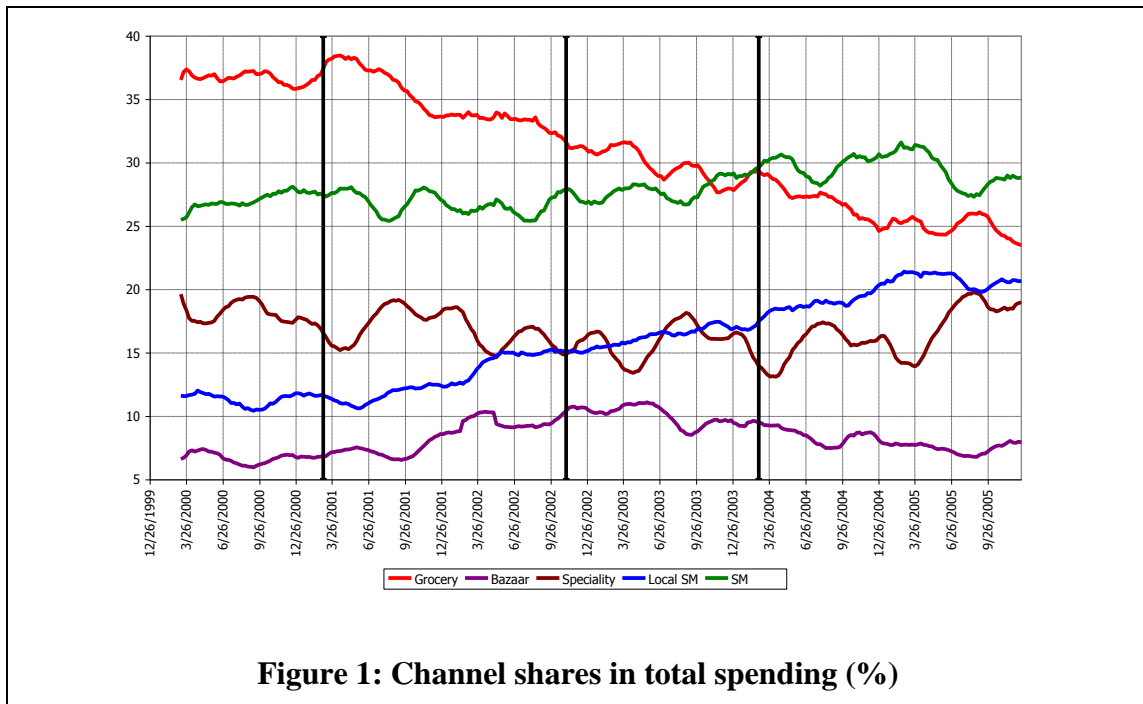
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<sup>2</sup> The figures are in August 2008 prices and exchange rates.



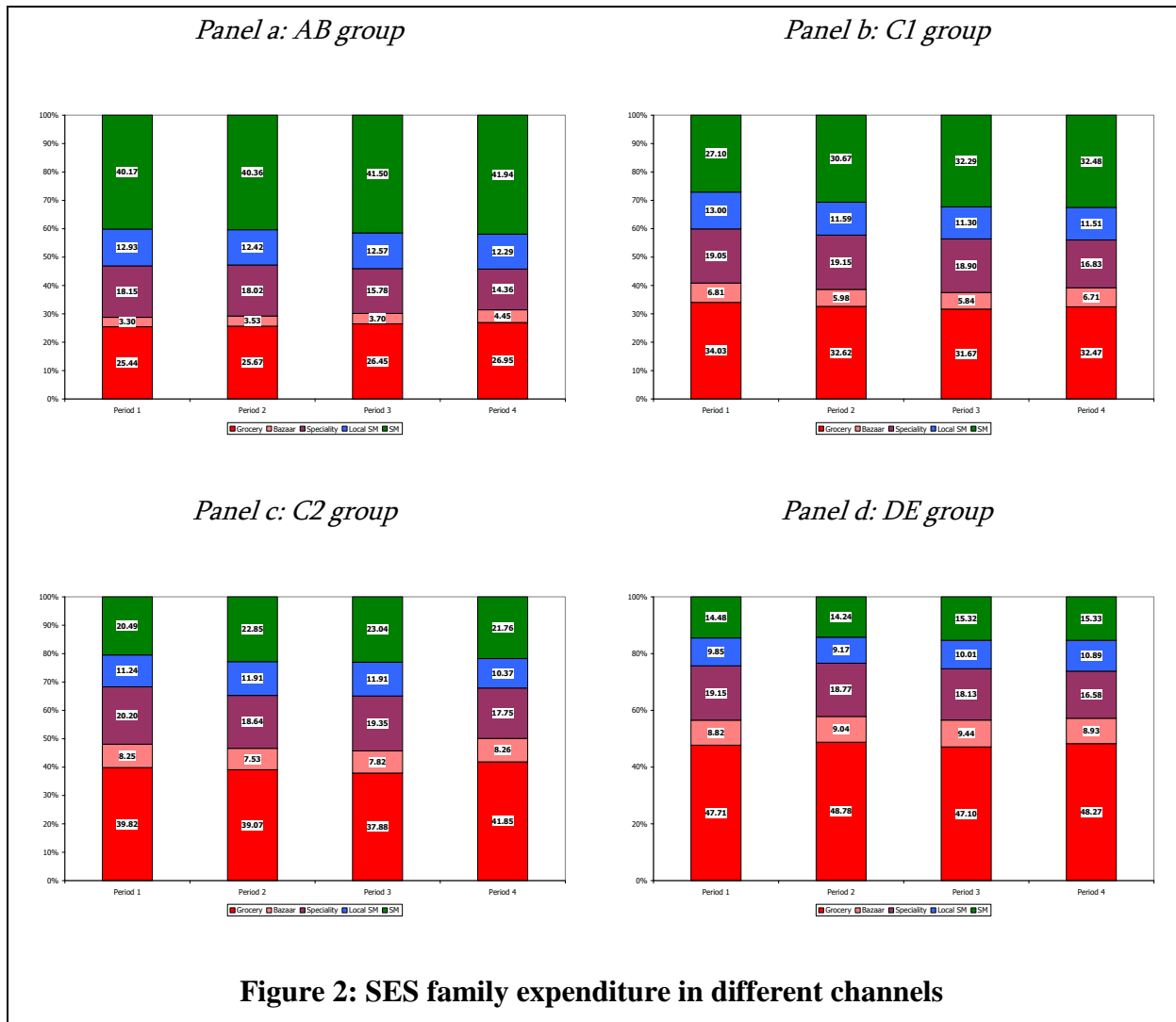
aggregation of shopping incidences is also an impact of modernization. However, there is also evidence that they have also increased their search efforts. The average number of channels visited in a given week has increased 6.5% after the crisis. Similar to Argentina case (McKenzie and Schargrotsky, 2006), in our sample, as a result of the economic crisis, the average spending of AB families has decreased 14% whereas the decline was 32% for DE families. Although in the last period the weekly spending level starts to recover for all families with the exception of DE group, recovery as of end of 2005 has not fully restored average spending to its previous levels. Furthermore, the gap between the average weekly spending of AB and DE families has increased.

As seen in Figure 1, the shares of traditional channels, especially that of groceries has been declining rapidly throughout the sample period. Traditional channels had 63% share of total expenditure at the beginning of the sample period, yet, their share declined to below 51% at the end of the sample period. In the five channel structure, grocery stores have lost the leadership to supermarkets, and local SMs have caught up to groceries to become the third player in the market. Grocery stores losing mostly to local SMs might mean that modern channel adoption is realized mainly through local SMs instead of supermarkets. Local SM, as a modern channel, seems to be the major threat to both groceries and supermarkets. On the other hand, steady share loss of groceries is not observed in other traditional channels: specialty and bazaar. Although their market shares fluctuate during the sample, the average share is constant. This remarks that these two traditional channels are offering unique benefits which are not fully met by modern channels.



During the economic crisis, grocery stores lost their share to modern channels indicating resilience of modern structures in times of economic hardship. The observed flexibility of modern channels to crisis might be a consequence of their stronger financial structure and the differences in their customer profile and customers spending pattern. Customer profile differences in channels show that the lower socioeconomic families, who are affected most from the crisis, are the major customers of groceries and they constitute 60% of grocery sales. On the other hand, the higher socioeconomic families, who are affected relatively less from the crisis, are the major customers of supermarkets and they generate 70% of supermarket sales. Interestingly, the local SM sale is generated evenly by lower and upper groups.

Similar observations are also made for each socioeconomic group: supermarket and local SM shares increased while grocery stores' share decreases and among modern channels, local SMs have gained more. As seen in Figure 2, two major macro developments, namely retail modernization and economic crisis influence differently the channel preferences of families. The higher the socioeconomic level of a family, the less they spend in the traditional channels. DE group prefers groceries most, whereas the AB group prefers supermarkets, yet spend a great deal in groceries as well. Traditional channels' share in the AB families' budget is approximately half of the share of traditional channels in DE families' budget.



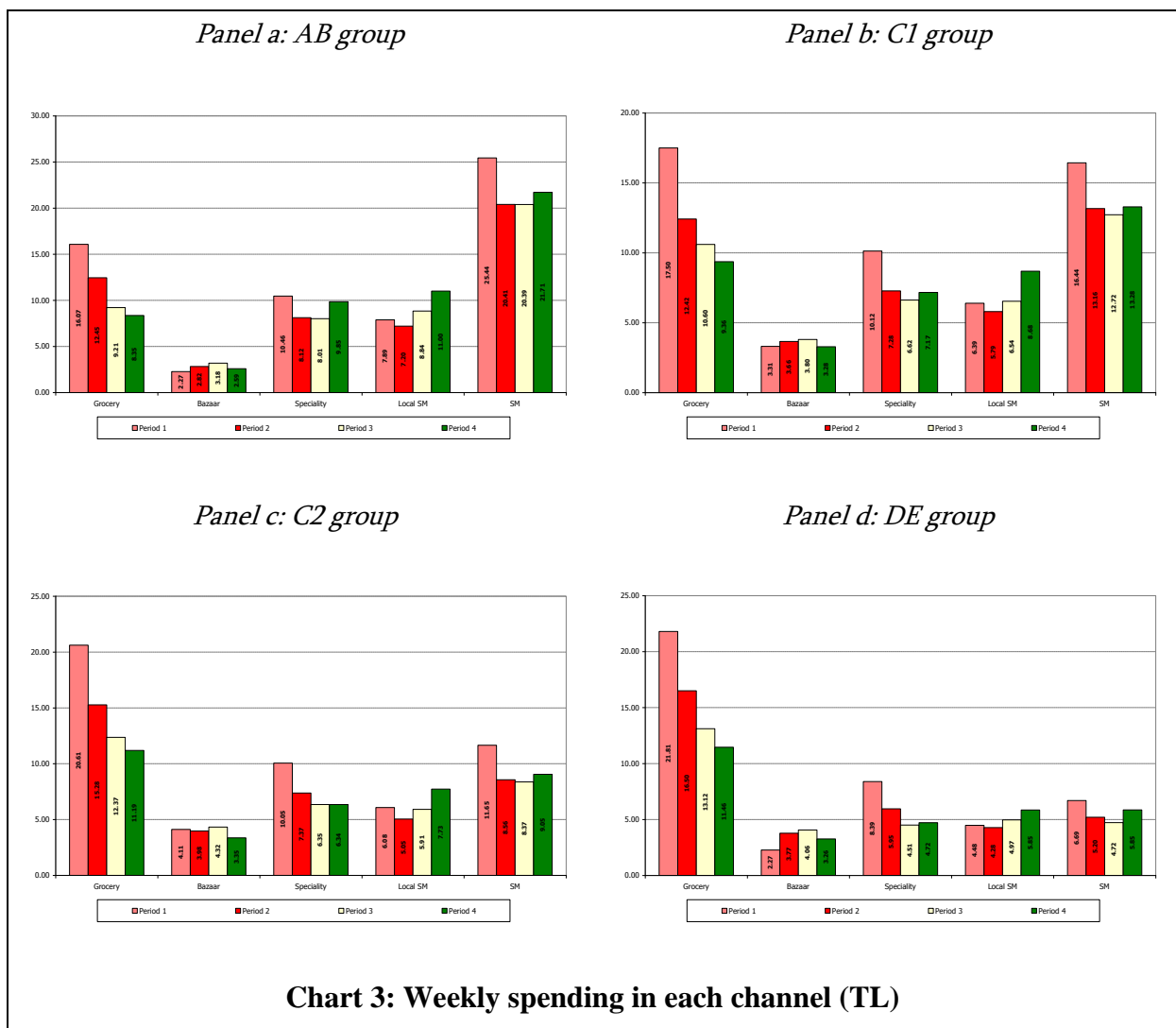
**Figure 2: SES family expenditure in different channels**

In line with the findings of similar studies in the literature, the modern channel adoption is observed in upper SES groups. Figure 2 shows that AB group diffusion of modern channels is near to completion in Turkey, while in middle group the adoption process continues and in DE group the process is more in the introductory phase. AB families allocate more than 60% of spending to modern channels however they still keep a part of their spending for traditional channels. Even in the full-adoption stage, the budget allocated to traditional channels might be still higher than in the US, since the specialty stores seem strong in keeping their shares and grocery stores are expected to keep a small share for fill-in purchases. Besides

convenience benefit, the strength of specialty stores might be a result of depth of product line they offer to meet the indulgence need of customers.

Traditional channels in total have a higher share in total shopping visits, than their share in total expenditure. Families visit traditional channels more frequently, but they spend less. The reason might be that the customers make a lower range and lower amount purchases from the grocery stores, because the grocery prices are claimed to be higher than supermarkets in Turkey (Caglayan et al., 2008) or the dominant preference of small amount purchases due to difficulties in paying, carrying and storing.

Spending amount in each channel varies for families in different sub-periods. As seen in Figure 3, AB families spend weekly 50% more in modern channels, while DE families spend 60% more in traditional channels.



Compared to the first period, in the last period all families continue to spend weekly the same total amount in the modern channel while upper socioeconomic level families spend 30% less and lower socioeconomic level families spend 50% less in the traditional channel. As a result, in the last period, weekly traditional channel spending of all SES groups equalized, but upper SES weekly modern channel spending is more than the double of lower SES group spending. Traditional channels spending decreased more in lower SES families since this group lost more purchasing power during the economic crisis, consequently modern channel seems stronger during the crisis period. On the other hand, the same level of spending in modern channels during four periods indicates that families do not actually carry their traditional channel spending totally to modern channels. The increase in the modern channel share is due to the increasing penetration of modern stores.

Although weekly total spending at the modern channels does not change in the four periods in our sample, all SES groups has decreased their spending in supermarkets, while they spend more in local SMs. Therefore the growth in total modern channel share is generated mainly by local SMs. It might mean that the local SM is an important competitor of both traditional channel and supermarket, and it might signal that families' transition from traditional channels to modern channels might be taking place through the local SMs.

In brief, it can be said that modern channels market share has increased through an increase in their penetration, but not through a rise in the amount of spending per family. Starting from the upper socioeconomic level, there are more families that have started to shop in modern channels. Moreover, the economic crisis had no significant effect in the growth of modern channels. Therefore one can conclude that, in parallel to socioeconomic developments, geographic dispersion will be a major mean of growth for modern channels to penetrate growing upper socioeconomic segment. Still, for national geographic growth of supermarkets, the local competition, like local SMs in Turkey, might be still a major challenge that might require the development of local competitive strategies for these companies.

On the other hand, total spending in modern channels has not changed. The difficulties in converting the share of purchase from traditional channels might depend on some

characteristics of product categories continued to be purchased from traditional channels. Therefore, it is important to understand the product categories forming a barrier in transferring the spending from traditional channels.

## **5 Product category diffusion**

Observation of spending and channel preference in 14 distinct product categories (alcoholic beverages, soft drinks, tea & coffee, confectionery, delicatessen, frozen food products, dairy products, culinary products, pastry, baby products, cosmetics, paper products, cleaning products and miscellaneous products) exhibit similar patterns to total spending: after the economic crisis, weekly spending levels in all product categories did not reach the level before the crisis.

The comparison of the channel shares in product categories in the first and last periods, presented in Table 1, illustrates that the grocery stores lost shares in all product categories, but at most in alcoholic beverages, cleaning products, pastry and confectionery, while local SM gained shares in all product categories, and at most in baby products, cleaning products and tea & coffee. Supermarkets also increased their shares and became the leader channel almost in all categories in the last sub-period of the sample. Although grocery stores were the leader almost in all categories in the early years of the sample, they lost shares drastically and kept the leadership position only in soft drinks and tea & coffee products in the last period and ranked second in confectionery, dairy, pastry and baby products. Among the traditional channels, specialty channel shares the leadership with supermarkets in alcoholic drinks and culinary products, and ranks as second channel in delicatessen together with grocery stores. In the last period, specialty channel kept more or less its share almost in all product categories which means that modernization did not change its relative position in the market as it did in the case of grocery stores. The product line depth in specialized products offered by the specialty channel together with its convenience and one-to-one relation advantages may be helping it keeping its attractiveness against the modern channel benefits.

Total share of supermarkets and local SMs reached the majority in all categories, except alcoholic drinks and soft drinks that are mainly consumed on-the-go, and dairy and culinary

categories that are consumed very frequently. For both categories convenience is very important, since the house storage of these product categories may not meet the consumption needs. The grocery stores and specialty channels continue to provide the convenience for filling-in the replenishments better than the modern channel. Besides, bazaar has a significant share in dairy products, probably as a consequence of hand-made dairy products that become more attractive in recent years as organic and natural products are provided only in bazaars. These four categories in total make 50% of an average family weekly budget, therefore the barriers in diffusing to beverages, culinary product and dairy product categories might be a major reason of limited adoption of modern channels.

**Table 1: Product category spending share in each channel in Period 1 and 4 (%)**

	<b>Grocery</b>		<b>Bazaar</b>		<b>Specialty</b>		<b>Local M.</b>		<b>Super M.</b>	
	<b>1 P</b>	<b>4 P</b>	<b>1 P</b>	<b>4 P</b>	<b>1 P</b>	<b>4 P</b>	<b>1 P</b>	<b>4 P</b>	<b>1 P</b>	<b>4 P</b>
Alc. Bev.	41	24	0	0	32	36	4	4	23	36
Soft Dr.	46	33	1	1	17	29	9	14	26	24
Tea-Coffee	49	40	4	3	5	3	12	24	29	31
Confect.	49	32	1	3	7	7	12	20	31	37
Delicates.	24	16	4	2	28	28	14	24	30	31
Frozen	25	25	1	1	21	24	11	12	42	39
Dairy	36	25	13	21	17	7	9	18	25	29
Culinary	33	22	10	8	24	25	11	20	22	24
Pastry	46	28	5	7	6	6	13	23	30	36
Baby	44	32	1	0	15	8	15	34	25	25
Cosmetics	31	18	2	2	22	21	13	23	32	35
Paper	32	16	2	1	3	2	14	23	49	58
Cleaning	42	25	3	3	7	6	15	27	33	40
Miscel.	32	19	1	2	15	10	11	19	40	50

Channel composition of weekly spending of each SES group in total and in product categories show a similar structure. AB families adapted to modern channels almost in all categories by carrying more than 60% of their weekly spending to modern channels. Similar to the findings above, even AB families still spend around 50% of their weekly budget used for alcoholic beverages, soft drinks and culinary products in traditional channel in the last period and these categories make 36% of their total spending. AB families increase the modern channel share in their weekly spending almost in all channels by spending more in the local SMs rather than supermarkets.

Contrary to AB families, DE families still spend mostly in traditional channels in all product categories. Traditional channels, keeping 70% share in the first period, lost around 10-20% shares almost in all categories spending, however they still keep the majority share almost in all categories. Similar to AB families, in the shift of spending to modern channels, local SMs play a more important role compared to supermarkets.

In all SES groups, modern channel adoption is held at most in paper and cleaning product categories (60-80%) and least in alcoholic beverages, soft drinks, dairy and culinary product categories (30-50%). Since the later categories in total make approximately 50% of an average family weekly budget, it is crucial for growth to convert these categories spending to modern channels. However the consumption pattern of these categories might fit well to traditional channel shopping. For instance, on-the-go consumption of beverages and fast fill-in requirement of culinary products and dairy products might require easy accessibility that is provided by grocery and specialty channels. Long purchase cycles from modern channels might increase fill-in purchase needs in some fast-consumed, difficult-to-store product categories. Moreover depth of variety need in culinary and dairy products might make specialty stores more attractive.

## **6 Discussion and Conclusions**

As a part of channel proliferation, modern channel formats are growing fast in Turkey. Traditional channels, such as groceries, delicatessens etc., face increasing competition of large foreign-owned market chains and small and geographically local SMs. In this study the



status of the competition between the traditional channel and the modern channel in Turkey has been demonstrated. The study analyzes the effects of the retailer modernization in Turkey on channel preferences of customers. In particular, changing channel preference of different customer groups in total and specific product category shopping is analyzed. Besides the effect of modernization, also the effect of decreasing purchasing power on shopping behavior is analyzed, considering the economic crisis experienced in Turkey during the observation period.

Analyzing the effect of channel proliferation and economic crisis on competition and channel choices of customers help managers to understand the market structure development, and develop strategies on geographic growth, product line, price ranges. As a result new channels continue to pursue to diffuse more, while conventional channels continue to pursue to diminish their share deterioration.

Throughout the sample, 2000-2005, the traditional channel has rapidly been losing its share in the market. The share of the traditional channel regressed from 63% at the beginning of 2000 to 51% at the end of 2005.

The loss of market share of the traditional channel has, contrary to expectations, benefited mostly by modern local SMs rather than nationally organized large supermarket chains. The market share of local SMs has increased from below 12% in 2000, to above 21% at the end of 2005. Supermarkets, on the other hand, could increase their share merely 3%, from 26% to 29%. This finding implies that customers' preference in favor of local SMs constitute an important phase in the modernization of food retailing in Turkey.

The economic crisis experienced during the observation period makes it difficult to isolate the modernization effect. However it allows us also to analyze the crisis effect on households' consumption behavior. The findings indicate that the effect of the crisis lasted for a very long time, and that it has not recovered even after five years. Average household expenditures still remained below the level in the pre-crisis period. The major expenditure reduction during the crisis happened in grocery stores. There is some evidence that the modern channel structure is more resistant to crises. Average household expenditure at supermarkets showed a relatively small decline, as well, yet, expenditure per household at local SMs continued to increase both, in the crisis and post-crisis periods.

In analyzing the modern channel diffusion in different socioeconomic levels, it is observed that upper socioeconomic groups adopted more to modern channels and transferred majority of their spending from traditional to modern channel. This result verifies similar findings in the literature (Goldman et al., 2002; East et al., 2000). As it is stated in relevant studies, the slow adoption pace in lower socioeconomic groups should be mainly due to the difficulty of transportation, the lack of financing necessary for bulk shopping and the lack of the space to store large quantities of shopping.

In parallel to this finding, it might be expected that as a result of decreasing purchasing power during the economic crises, traditional channels might increase their shares in total spending. Contrary to this expectation, traditional channels lost drastically during the crisis period, while modern channels increased their shares.

The share lost by traditional channels in the crisis, might be mainly a consequence of higher impact of the crisis on their major customer group who are lower socioeconomic families, since they decreased their total spending more during the crisis. Although total spending per family has decreased, verifying the findings of similar studies (McKenzie and Schargrotsky, 2006) all customer groups increased the number of shopping incidence to search for cheaper products in different channels as a result of decreasing relative search cost. Increase in modern channel share in total spending might also indicate that customers could search and find cheaper product alternatives in modern channels, since modern channels carry a larger price range in all product categories, and they implement price promotions, which might have increased their attractiveness during the crisis. During observation period, the position of supermarkets is more or less stable, however local SMs grow. Local SMs stand for an initial stage in adoption of modern channels, and this makes them a strong alternative to supermarkets, providing similar store format in more convenient places. Therefore, local SMs might accelerate the adoption to modern channels yet they may decrease the adoption pace of supermarkets.

Diffusion of supermarkets is directly influenced with socioeconomic distribution of families in the country. Increasing geographic availability of stores in developing countries is crucial in increasing the penetration. In developing countries, the accessibility is a benefit that is compatible with current shopping habits and counterbalances low automobile ownership

deficit. However local competitive reaction, as seen by local SMEs, might be an important barrier for fast geographic growth.

Similar to other countries, majority of customers use more than one channel in Turkey (Goldman et al., 2002; Knox and Denison, 2000). Therefore, penetration by higher geographic availability will not be enough in increasing the share in total spending of families. In analyzing, the modern channel diffusion in different product categories, it is observed that customers adapted modern channels most for purchasing products that are standard and that can be stored, such as paper and cleaning products. Due to the convenience benefit, the traditional channels are still strong in meeting customers regular or fill-in purchases in the more frequently consumed products, such as beverages, culinary products and dairy products. Longer purchasing cycle from modern channels and shorter consumption cycle of these product types might not match. Besides the convenience, among the traditional channels, specialty channel offer a very large product range carried in the specialized product category and it meets specific needs of customers. Therefore, although groceries lose shares even in these categories, specialty channel keeps its position even for higher socioeconomic families. Similar to Goldman et al., 2002, for some product categories the adoption to modern channel is slower. In Turkey, modern channel adoption in beverages, culinary products and dairy product categories is slower due to the deficiencies of modern channels in accessibility and product line depth. Considering, the strength of some specific product categories in the channel preference, the modern channels might consider improving the range in these specific categories.

In the case of data availability, the price levels, and the depth and length of product lines carried in stores should be included in classifying stores in more homogeneous small channel definitions in order to understand the determinants of modern and traditional channel preferences better. Moreover, besides demographic characteristics, lifestyle characteristics of families and their accessibility to different channel alternatives will help to explain their channel preferences.

An important characteristic of families is that they use more than one channel for shopping. Both upper and lower socioeconomic groups continue to use both modern and traditional channels at different intensities. In order to understand better if it is a temporary stage in modernization process or if it is a multi-channel usage behavior that is adopted as a result of

the channel proliferation, it will be important to repeat the study after a certain period of time. It is easier changing the channel for each shopping incidence, rather than carrying the majority of budget from one channel to another channel. Therefore, in studying the stability of channel preferences it is better to analyze the budget allocation of customers and the major channel choice where they allocate the majority of their family shopping budget. Studying the share of budget allocated to each channel type as a loyalty measure, its change between periods and its determinants is important to conclude better the modernization effect in channel preferences.

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